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ISSUES FOR THE MEMORANDUM TO THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

I. INTRODUCTION

1. The unfavourable international economic and financial environment in which adjustment programmes are implemented in Africa is still dominated by the continuing high real interest rates and the instability in exchange rates of the major world currencies. Moreover, the never ending decline in commodity prices still constitutes a major obstacle to any attempt by African countries to increase their export revenue. This is being aggravated by the sharp decline in resource flows in real terms to Africa, especially the official development assistance (ODA) and the already acute balance-of-payments of many African countries. The overriding issue is that the volume of financial flows to African countries is inadequate to support the current economic growth, efforts, structural adjustment and debt service obligations.

II. STRUCTURAL ADJUSTMENT PROCESS

2. The African countries are implementing structural adjustment programmes under trying circumstances and with scanty resources. So far, some of the industrial countries with preponderant weight and influence in the world monetary and financial problems do no seem prepared to take steps to reduce their considerable fiscal and external deficits. The failure of those large countries to adjust their policies and implement appropriate measures conducive to world economic recovery and growth, continues to shift the burden of adjustment to developing countries. Therefore, IMF surveillance of the economic policies of the industrial countries should be strengthened in the light of its mandate contained in its article of agreement, so that countries concerned introduce appropriate corrective measures.

3. New guidelines are needed for IMF supported programmes in Africa which have had limited effectiveness so far. It appeared (a) that while programmes tended to strengthen the basis or overall balance of payments, the known statistical significance of the results was low and the achievement often fell short of programme targets, which tended to be over-ambitious: (b) only in some cases did the Fund programmes result in significantly larger inflows of capital from other sources and there was no systematic association at all between programmes and sustained liberalisation of trade and payment (c) programmes did not generally have strong deflationary effects, although there were indications that such effects were becoming stronger in the more recent years. Interestingly Fund assessments themselves made only modest claims to success. It also became apparent that both stand-by and extended fund facility programmes were subject to fairly frequent breakdowns. Extended fund facility programmes probably brought smaller balance-of-payments benefits, and overall evidence did not support the view that extended fund facility programmes resulted in significant improvements in the export performance of the countries concerned.

III. Fund's Resources

4. It is obvious that proceeds from quota subscriptions are the main source of resources for the institution. However, in the light of the preponderant role of the quota in determining the number of voting shares, the amount of access to the resources of the institution, and entitlement to SDR allocations. However it is urged that criteria's fund for calculating and distributing quota be fundamentally recast, with due consideration given its cooperative nature.

IV. Access to Fund Resources

5. It is understood that the existing Compensatory Financing Facility (CFF), through which the Fund compensates for temporary shortfalls in export earnings will be combined with a new external contingency mechanism in a single facility. Moreover during the last spring meetings of the Interim-Committee, it has been agreed that the extended Fund Facility which assists members in meeting external payments over a longer period and in larger amounts than under stand-by arrangements, will also be strengthened and the Interim Committee noted that the conclusion of agreements with a number of contributor countries would soon permit the Enhanced Structural Adjustment Facility (ESAF) to become operational. Nevertheless, the need to ameloriate Africa's economic performance by injecting these facilities should not overshadow the painful consequences of the application of the concept of conditionality and the evaluation of the outcome of the policicies implemented.

6. For many reasons, there is a strong case for modifying the content of conditionality - at least, a reversion to the late-1970s attempts to adapt it to developing country circumstances. The case flows from the articles of agreement. given the changing nature of its clientele and their problems, the Fund's traditional conditionality reduces its ability to carry out certain of the purposes written into its articles. So far as the former are concerned, we urge the case for adopting a richer mix of policies and the principle that the design of programmes should be related to the causes of the problems they are intended to resolve. We urge the concious adoption by the Fund of a 'cost-minimisation' principle in designing its conditionality for any given country, that is it should examine alternative courses of action on the balance of payments and select that which is most in harmony, or least in conflict, with other objects of government policy. This implies giving greater weight to the "primary objectives" of policy, to the distribution of income and to the political implications of the proposed measures.

7. While we agree with the Fund's principle of uniformity of treatment amongst members, we suggest that greater weight be placed on the differential ability of governments and public administrations to formulate and execute integrated packages of measures, and on the varying speed of improvement it is realistic to

anticipate. Taking countries' differing "capacities to transform" more into account would move the Fund in the direction of longer-term programmes in the poorer LDCs. A final general recommendation is that Fund conditionality should focus on achieving a consensus with the government about desirable policy measures, with a corresponding move away from the present importance placed upon quantified performance criteria relating to domestic credit and a few other macroeconomic variables.

8. Indeed, there is no dobut that present Fund policies do not offer deficit countries a soft option a way of obtaining a lot more money without taking tough policy measures. We are urging the Fund - and more particularly the country representatives who decide its policies - to have the courage and convictions to adapt conditionality to the impact of the second oil shock in 1979-80. It is true that if it were to move far in the direction we propose the Fund would need larger resources. We also believe that there is need for policy changes by many LDC governments: limitations of space prevent us from developing these themes here. It should also be remembered that any success which oil-importing developing countries might have in reducing their deficits relies on the willingness of other countries to see their payments positions weaken. For as long as the international environment remains characterised by protectionist anti-trade policies and deflationary macroeconomic policies in industrial countries, the scope for adjustment through the domestic efforts of LDC governments will remain severely limited.

V. Africa's External Indebtedness

9. Africa's debt servicing problems continue to constitute a very heavy burden on the economies of the countries by draining away much needed foreign exchange. Debt rescheduling which is presently adopted to solve the debt crisis of African countries, constitutes only a relief of a temporary nature, and in fact, aggravates the debt service problems in later years. Moreover, rescheduling is always tied to a prior agreement with the IMF on a set of economic programmes and policies to be implemented which sometimes create more economic and social hardship than they solve. We appeal to IMF to design more flexible programmes and policies for countries applying for a debt rescheduling. We also feel that the IMF ought to encourage creditors to improve their rescheduling terms for African countries by allowing longer grace and maturity periods as well as lower interest rates. Some creditors also ought to be urged to cancel some or all of the debt of African countries or to convert part or all of the debt into grants or equity. Since the IMF itself has become a major creditor of many African countries, it ought to set up a new mechanism to help those African countries which, because of exogenous factors, are unable to repay their obligations to the Fund on schedule.

10. Since there is no way out of the debt problem without a reversal of the negative transfer of resources and a reduction of the debt overhang, the IMF, although looking into the possibility of establishing a new credit facility designed to alleviate the debt service burden of African countries caused by

high real interest rates, should also be urged to support and participate actively in the convening of an international conference on Africa's external indebtedness whose aim will be to devise short medium and long term solutions to the debt crisis of African countries.

VI. Reform of the International Monetary System

11. There appear to be a general consensus that the present international monetary system concentrates the decision making power in money and finance amongst the few highly developed countries of the world and is unfair to developing countries. Therefore the system ought to be reformed to ensure the effective participation of developing countries in the decisions on money and finance which affect the economies of developing nations as much as they affect those of developed nations. An international conference on money and finance for development ought to be convened to discuss modalities of a new international monetary system, that would be fully responsive to the needs of developing countries.